

28 February 2024

Consumer Non-cyclical | Food & Beverage Products

## Heineken Malaysia (HEIM MK)

**Buy** (Maintained)

### Staying Sober Amidst Challenges; Stay BUY

Target Price (Return): MYR29.60 (+33%)  
 Price (Market Cap): MYR22.30 (USD1,413m)  
 ESG score: 3.3 (out of 4)  
 Avg Daily Turnover (MYR/USD) 4.95m/1.02m

- **Maintain BUY, with new MYR29.60 TP from MYR30, 33% upside and c.6% yield.** FY23 results met consensus expectations, but missed our forecast on lower-than-expected sales. We continue to like the brewery sector for the steady demand for beer and continuous operational efficiency gains to mitigate cost inflation. We believe Heineken Malaysia's current valuation at -1.5SD is unwarranted considering the muted regulatory risks with political stability and largely contained contrabands market. Generous dividend payout ratio will be supported by robust cash flow generation.

- **FY23 results were below our expectation, but in line with consensus.** Net profit of MYR387m (-6% YoY) accounted for 96% and 100% of our and Street estimates. The negative deviation could be attributed to the lower-than-expected sales. Post results, we trim FY24F-25F earnings by 2-3% and introduce FY26F earnings (+4% YoY). Correspondingly, our DDM-derived TP drops to MYR29.60 (inclusive of a 6% ESG premium), which implies 22x FY24F P/E or at a premium over peer Carlsberg (CAB MK, BUY, TP: MYR22.2). This is justified by HEIM's market leadership in Malaysia and more generous dividend payout.

- **Results review.** YoY, FY23 revenue dipped 8% to MYR2.6bn on the back of soft consumer sentiment whilst FY22 was an exceptional base lifted by economy reopening and special Employee Provident Fund or EPF withdrawal. As a result, FY23 PBT fell 14% to MYR511m. That said, net profit decline was milder at 6% thanks to the normalisation of effective tax rate or ETR post expiry of Cukai Makmur. QoQ, 4Q23 revenue and net profit jumped 22% and 14% on favourable seasonality. FY23 DPS totalled at MYR1.28, which represents a 100% payout ratio. (FY22: MYR1.38, 101%).

- **Outlook.** Management has observed some improvement in consumer sentiment since 4Q23 and this has sustained into FY24F. This is in view of the encouraging Lunar New Year sales momentum. Meanwhile, the premiumisation strategy has continued to gain traction in view of the steady performance of the premium brands. On top of that, rising tourist arrivals should lend further support to consumption growth going forward. On the flipside, management regards the geopolitical tensions as a major risk as further elevation may lead to supply chain disruption and material hikes in input costs.

- **Risks to our recommendation** include weaker-than-expected consumer sentiment and sharp rise in input costs.

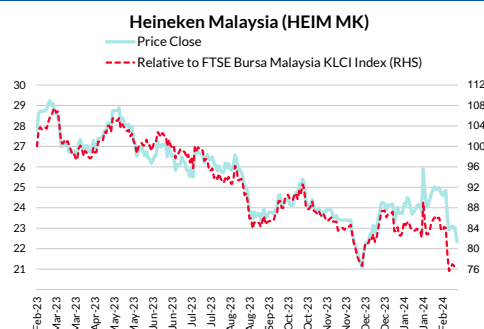
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.5)	(6.1)	(4.5)	(10.4)	(19.6)
Relative	(13.9)	(8.8)	(11.4)	(17.5)	(25.9)
52-wk Price low/high (MYR)				21.1	29.2



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (MYRm)	2,855	2,638	2,763	2,874	2,975
Recurring net profit (MYRm)	413	387	414	441	460
Recurring net profit growth (%)	68.0	(6.3)	7.0	6.6	4.3
Recurring P/E (x)	16.35	17.45	16.31	15.30	14.68
P/B (x)	13.8	14.7	14.6	14.4	14.3
P/CF (x)	13.81	11.48	13.73	12.49	12.02
Dividend Yield (%)	6.2	5.7	6.1	6.5	6.7
EV/EBITDA (x)	10.17	11.53	10.67	10.03	9.60
Return on average equity (%)	93.4	81.7	89.8	94.8	97.9
Net debt to equity (%)	24.0	20.0	18.5	12.1	5.0

Source: Company data, RHB

#### Overall ESG Score: 3.3 (out of 4)

##### E: EXCELLENT

Heineken continues to contribute to environmental sustainability by implementing a few initiatives to reduce GHG emissions and reliance on natural resources. They continue to manage waste responsibly by investing in recycling and upcycling initiatives through licensed waste management vendors.

##### S: EXCELLENT

Good policy to enhance the awareness of health and safety amongst its stakeholders and putting in place a framework that ensure a safe and conducive working environment for its people. In addition, Heineken is committed in advocating responsible consumption amongst Malaysians.

##### G: GOOD

Ensures accountability when identifying and managing sustainability matters through a sound sustainability governance structure. The direct oversight provided by the Board allows for the monitoring of Heineken's sustainability strategy and its progress as well as potential risks and opportunities.

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## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Malaysia	Recurring EPS	1.37	1.28	1.37	1.46	1.52
Consumer Non-cyclical	DPS	1.38	1.28	1.36	1.45	1.51
<b>Heineken Malaysia</b>	BVPS	1.62	1.52	1.53	1.55	1.56
HEIM MK	Return on average equity (%)	93.4	81.7	89.8	94.8	97.9
Buy						
<b>Valuation basis</b>	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Dividend discount model	Recurring P/E (x)	16.35	17.45	16.31	15.30	14.68
	P/B (x)	13.8	14.7	14.6	14.4	14.3
	FCF Yield (%)	4.4	6.7	6.2	7.0	7.3
	Dividend Yield (%)	6.2	5.7	6.1	6.5	6.7
<b>Key drivers</b>	EV/EBITDA (x)	10.17	11.53	10.67	10.03	9.60
i. Buoyant consumer sentiment;	EV/EBIT (x)	11.52	13.20	12.41	11.64	11.13
ii. Market share gain.						
<b>Key risks</b>	<b>Income statement (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
i. Excise duty hike;	Total turnover	2,855	2,638	2,763	2,874	2,975
ii. High contraband instances.	Gross profit	966	911	961	1,007	1,043
	EBITDA	675	593	641	678	705
	Depreciation and amortisation	(79)	(75)	(90)	(94)	(97)
	Operating profit	596	518	551	585	608
	Net interest	(2)	(7)	(6)	(4)	(3)
	Pre-tax profit	595	511	544	580	605
	Taxation	(182)	(124)	(131)	(139)	(145)
	Reported net profit	413	387	414	441	460
	Recurring net profit	413	387	414	441	460
<b>Company Profile</b>	<b>Cash flow (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
Heineken Malaysia produces, packages, markets and distributes beer under the Guinness Stout, Anchor Special Beer, Anchor Pilsener Beer, Lion Stout, Anchor Beer, Anchor Ice Beer, Tiger Beer, Heineken Beer, Anglia Shandy, and Malta.	Change in working capital	(14)	155	(18)	2	1
	Cash flow from operations	489	588	492	540	561
	Capex	(193)	(137)	(70)	(70)	(70)
	Cash flow from investing activities	(60)	(60)	(60)	(60)	(60)
	Dividends paid	(417)	(387)	(410)	(437)	(455)
	Cash flow from financing activities	(314)	(456)	(431)	(461)	(498)
	Cash at beginning of period	76	53	43	34	44
	Net change in cash	114	72	1	19	3
	Ending balance cash	191	125	44	54	47
	<b>Balance sheet (MYRm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Total cash and equivalents	53	43	34	44	37
	Tangible fixed assets	505	576	556	533	506
	Total assets	1,416	1,248	1,270	1,280	1,268
	Short-term debt	170	135	120	100	60
	Total liabilities	928	789	807	813	796
	Total equity	488	459	463	467	472
	Total liabilities & equity	1,416	1,248	1,270	1,280	1,268
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	Revenue growth (%)	44.7	(7.6)	4.7	4.0	3.5
	Recurrent EPS growth (%)	68.0	(6.3)	7.0	6.6	4.3
	Gross margin (%)	33.8	34.6	34.8	35.0	35.1
	Operating EBITDA margin (%)	23.6	22.5	23.2	23.6	23.7
	Net profit margin (%)	14.5	14.7	15.0	15.3	15.5
	Dividend payout ratio (%)	101.0	100.0	99.0	99.0	99.0
	Capex/sales (%)	6.8	5.2	2.5	2.4	2.4
	Interest cover (x)	346	70	89	133	190

Source: Company data, RHB

## Results At a Glance

Figure 1: HEIM's quarterly results review

FYE Dec (MYRm)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	
Revenue	791.7	599.7	728.6	21.5	(8.0)	2,855.1	2,637.7	(7.6)	Result of a normalisation from the high FY22 base and soft consumer sentiment
EBIT	155.2	117.5	135.6	15.4	(12.6)	596.2	518.3	(13.1)	
EBIT margin (%)	19.6	19.6	18.6	(1.0)	(1.0)	20.9	19.6	(1.2)	
Interest expense	(1.0)	(2.2)	(3.6)	65.5	277.4	(1.7)	(7.4)	331.0	
Pretax profit	154.2	115.3	132.0	14.5	(14.4)	594.5	510.9	(14.1)	Mainly dragged by the lower sales
Pretax margin (%)	19.5	19.2	18.1	(1.1)	(1.4)	20.8	19.4	(1.5)	
Tax	(49.6)	(28.0)	(33.0)	17.7	(33.5)	(181.7)	(124.1)	(31.7)	
Effective tax rate (%)	32.1	24.3	25.0	0.7	(7.2)	30.6	24.3	(6.3)	Expiry of Cukai Makmur
Net profit	104.6	87.3	99.1	13.5	(5.3)	412.8	386.8	(6.3)	At 96-100% of forecasts
Net margin (%)	13.2	14.6	13.6	(1.0)	0.4	14.5	14.7	0.2	FY23 DPS amounted to MYR1.28 (FY22: MYR1.38)

Source: Company data, RHB

## Emissions And ESG

### Trend analysis

Absolute emissions and emission intensity have decreased by 49% and 56% vs the 2018 base.

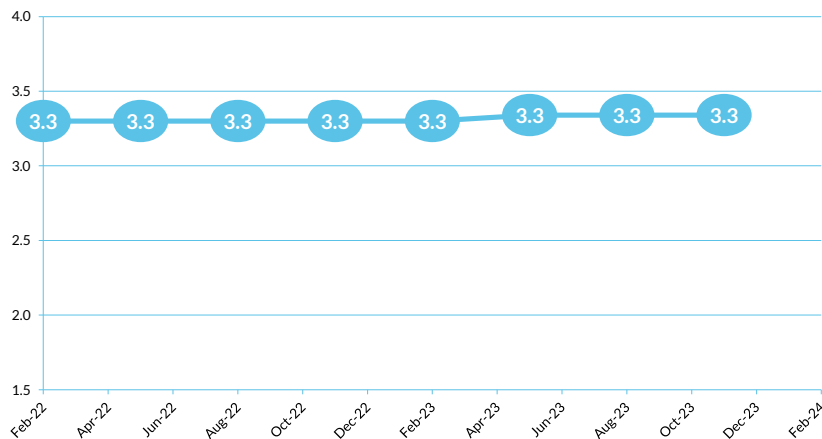
Emissions (tCO <sub>2</sub> e)	Dec-21	Dec-22	Dec-23
Scope 1	4,700	6,039	na
Scope 2	8,375	1,410	na
Scope 3	1,908	1,699	na
Total emissions	14,983	9,148	na

Source: Company data, RHB

## Latest ESG-Related Developments

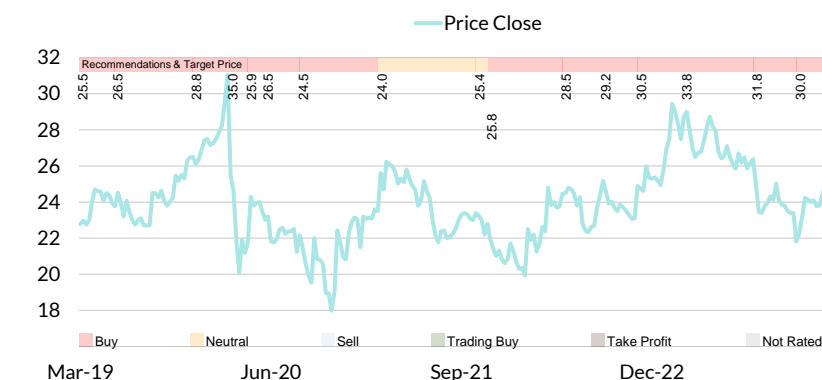
- In Mar 2022, Heineken partnered with Tenaga Nasional in the Green Electricity Tariff programme and has transitioned to 100% renewable electricity.
- In 2022, Heineken had a 37:63 male to female ratio in its management team, an increase of 25% in female representation from the previous year.
- In Dec 2022, Heineken offered up to 10,000 Grab promo codes for a MYR10 discount off Grab rides for various events to encourage responsible drinking.

## ESG Rating History



Source: RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-28	Buy	30.0	22.8
2023-08-15	Buy	31.8	25.8
2023-05-12	Buy	33.8	28.2
2023-02-26	Buy	33.8	27.5
2022-11-09	Buy	30.5	24.7
2022-08-15	Buy	29.2	24.7
2022-05-11	Buy	28.5	23.3
2022-02-16	Buy	25.8	20.4
2021-11-12	Buy	25.8	22.8
2021-10-13	Neutral	25.4	23.3
2021-08-26	Neutral	24.0	22.6
2021-02-19	Neutral	24.0	23.5
2020-08-14	Buy	24.5	22.2
2020-05-20	Buy	26.5	23.3
2020-04-09	Buy	25.9	21.5

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
<b>Sell:</b>	Share price may fall by more than 10% over the next 12 months
<b>Not Rated:</b>	Stock is not within regular research coverage

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